

Are the

# RICH getting rich



Stock Market Hits Record High • Inflation Holding Steady for U.S. Consumers • Gas Prices on the Decline

These are a few of the recent headlines regarding the national economy. The universal message is that the U.S. economy is strong, and we assume from this assessment that the majority of Americans are reaping the benefits of this economic growth. An interesting question, however, is how evenly this prosperity is being spread across different income levels. The tide is high, but are all boats rising?

Certainly, a common phrase comes to mind: The rich are getting richer and the poor are getting poorer. This saying was derived from the Bible and became more widespread in 1921 as a result of the popular song "Ain't We Got Fun." But does the phrase really reflect the pattern of income distribution in the United States?

One of the most common methods of evaluating income distribution is quintile comparisons. In this method, households or individuals are ranked by income, then divided into fifths. The bottom quintile is made up of those in the bottom 20 percent of the income ranking, the second quintile represents

those ranked in the 21-40 percent range, and so on. Absolute equality would mean that each quintile holds the same percentage of total income. So, the deviations from equal income percentages across the quintiles are a general measure of inequality.

According to national data from the U.S. Census Bureau, it does seem to be the case that those in the highest quintile hold the largest share of household income and have done so for quite some time. In 1971, for example, households in the highest quintile held almost 44 percent of total U.S. income (measured in 2001 dollars to control for inflation), which was a larger share than the bottom three quintiles combined. In 2001, the share for the highest quintile increased to over 50 percent, a larger share than the other four quintiles combined. In fact, but for a few exceptions, the wealthiest 20 percent of households are the only group to have seen their income share grow over the last 30 years. The shares held by the middle three quintiles have shown a significant decline over the same period.

*\*The Gini Coefficient is a measure of the relative difference between uniform income distribution and actual income distribution. It's evaluated on a scale of zero to one, where one represents perfect inequality.*

Source: U.S. Census Bureau


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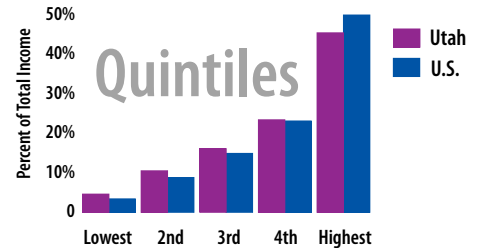
Another commonly used measure of income inequality is the Gini Coefficient, which measures the relative difference between uniform income distribution and actual income distribution (measured by the Lorenz curve). It's evaluated on a scale of zero to one, where zero represents perfect equality and one represents perfect inequality. National data from the U.S. Census shows that the Gini Coefficient has risen fairly steadily since the late 1960s, with some notable exceptions corresponding to recessionary periods.

Currently, Utah's income distribution seems to show some of the same characteristics as the nation. According to the American Community Survey, in 2005, the wealthiest 20 percent of households in Utah held 45 percent of the state's income. However, overall, Utah exhibited a stronger level of equality across the quintiles, with the bottom four holding a larger share of the total household income than that held by the corresponding national quintiles, and the top quintile holding a smaller share.

So, are we to conclude that the rich are indeed getting richer and the poor are getting poorer? The data seems to say yes, but as is the case with most data, we need to look more closely. One factor being overlooked here is the number of income earners within a household. The total income of a household can shift depending on the number of income earners within the household, so some of the changes in household income share could be due to changes in household composition rather than an unequal distribution of income.

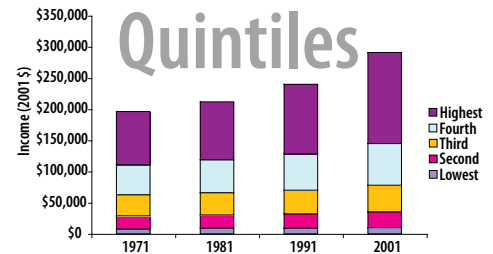
To end on a philosophical note, let's ask ourselves why we should care. Some argue that income inequality is bad for the country. From a societal perspective they argue that it breeds injustice and from an economic perspective it is thought to be harmful because it stifles economic growth. However, others argue that income inequality is not a problem because the additional income going to the top households will get funneled through to the other tiers through investment. 

2005 Income Distribution



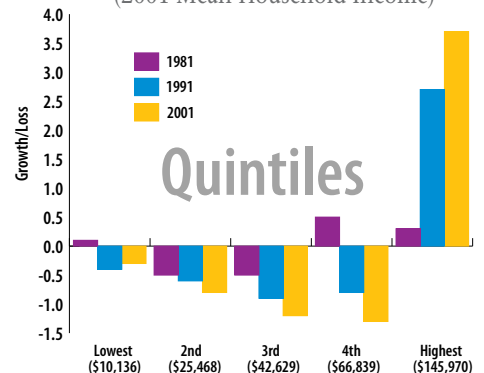
Source: 2005 American Community Survey, U.S. Census Bureau

U.S. Household Income Shares  
Select Years



Source: U.S. Census Bureau

Decade-Over Growth/Loss of  
U.S. Household Income Share  
(2001 Mean Household Income)



Source: U.S. Census Bureau